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# HELPING FAMILIES USE CREDIT WISELY

A Guide for Home  
Economics Program  
Aides

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# HELPING FAMILIES USE CREDIT WISELY

A Guide for Home Economics Program  
Aides

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Many families run into trouble with money. It often does not stretch from one payday to the next. There never seems to be enough for all the things a family wants and needs.

When they do not plan their spending, families often buy too much. Credit can help them get the things they want. It can also cause trouble. You can help them learn to use credit wisely.

These leaflets will help you teach families about using credit. When you work with only one woman, use the leaflets that answer the questions she has about credit. You can also use the leaflets to teach a group in a series of meetings. These leaflets will help you teach families:

- What credit is
- When to use it
- How to use it wisely
- Where they can get it
- How to compare credit costs
- What a credit contract means
- What happens if they don't pay.

To teach a homemaker:

1. Tell
2. Show
3. Do
4. Tell again

## TO TELL

Talk about real situations. Use credit problems you know about as examples. Be very careful not to mention any names. Money troubles are very private.

Help her first with the problems she asks you about. Ask only the kind of questions that will help her talk.



## TO SHOW

We remember what we see better than what we just hear about. Show the homemaker how to do the things you talk about. With her help, write down her credit problem so she can look at the figures and see where she stands.

## TO DO

We remember things longest when we do them ourselves. Make up a credit problem. Let her help you figure out the answer. Then you can see if she learned how to do it.

## TO TELL AGAIN

Repeating something helps people remember it. Go back over the main points of what you told the homemaker. Ask her what she remembers best. Encourage her to teach others what she has learned. Next time you see her, ask her if she has had a chance to use what you taught her.

Offer the booklet that will remind her of the things you just talked about. For example: Teach her about studying a contract before she signs it. Then give her a copy of *Your Credit Contract*. Go over it with her. Be sure she knows the meaning of each word. Suggest she talk about it with her husband or a relative.

## OTHER SUGGESTIONS

Be interested in the children. The families you teach need to know you are their friend. They should know that you are there only to help.

Find out if you can work with the women in a group. You may need to work with them alone.

## TO WORK WITH GROUPS

It is better to say, "Let's get together," rather than, "Call a meeting."

- Locate people who would like to meet in a group.
- Find out when they can meet.
- Find out where they would like to meet.
- Arrange for the meeting place.
- Let everyone know the time and place of the meeting.
- Write down the things to do at the meeting. Plan what you will say. You may want your trainer agent to help you.
- Plan something just for fun at the meeting. What will it be? Work this out.
- Be sure everyone has a chance to talk.
- Before the meeting is over, plan with the group for the next meeting.

Here is a suggested plan for a meeting. Discuss it with your trainer agent.

## A PLAN FOR A MEETING

1. Get to know each other (game-song-coffee).
2. Tell about the meeting.
  - a. What you will teach about today.
  - b. How long it will take.
  - c. Why they need to know this.
3. Teach the lesson—if it is part of a series, relate it to the other lessons. Let the women ask questions.
4. Talk over what you taught.
5. Plan the next meeting.
  - a. When and where to meet.
  - b. What the group will do.

## INFORMATION ABOUT THE CREDIT LEAFLETS

If you are teaching a series of meetings, you may want to give the lessons in the order used here. If you work with only one woman, you don't have to use any special order.

### What Is Credit?

This leaflet is planned to let home-makers know what credit is and what they are letting themselves in for when they use it.

In your discussion, define credit. Point out that when a woman says she will "charge it", "finance it", "buy on time", or "use a payment plan", it is the same as "using credit". She can buy now, pay later. She can use the things while she pays. Usually she will make payments every week or every month.

Also, if you are meeting with a group of women, ask a banker, lawyer, or credit manager of a department store to speak to your group. Each can give advice about using credit and answer questions. You might ask some of them to be on a panel to discuss uses and abuses of credit. One might even lead a discussion.



### Should You Use Credit?



This leaflet points out the good and bad in using credit. The questions will help a woman decide if she should use credit.

Discuss these reasons for using credit with her.

- She can buy things she needs when she doesn't have enough cash to pay for them. It helps some of us get things we wouldn't be able to save for.
- She can use things while she pays for them.
- She might be able to save money. Example — It might be worthwhile for a mother with children to use credit to buy a washer rather than put money into a coin-operated machine every day.
- She may get better service when repairs are needed.
- An established credit rating can help her get credit in emergencies such as sickness or unexpected repairs.

Discuss these reasons against using credit with her.

- Using credit usually costs more than paying cash. True annual interest rates can range anywhere from 8% to 42%.
- She may buy things she doesn't need.

- She may buy more than she can pay for. A small monthly payment may not sound bad, but along with many others, it may be too much. Help the woman figure how much of her income is left after her expenses. Then she will see if she can make the payments. If you need help, ask your trainer agent.
- If she can't pay for the things she buys, she may have to return them and lose the money she has already paid. If she must return something she bought on credit, she should have the seller write down that she won't owe any more money.
- She may not shop around to get the best buy. She may just buy where she knows she can get credit. Sometimes families get credit where it costs a lot because they don't know they might get it for less somewhere else.
- Agreements and contracts are hard to understand. We don't always know what they mean. Beware of "fast-talking" salesmen and con men. Their contracts are legal although their tactics may not be. Tell about an experience you or someone else had with a salesman who hurried you to sign a contract or agreement. Or, bring a newspaper story about one. Use a local story if you can. Then ask the homemaker if she knows of any. If you are having a meeting with several women, ask for their experiences.
- Tell her to deal only with honest people who are part of her business community. Find out if they

are there to stay or just passing through. She can check with the Better Business Bureau or Chamber of Commerce.

Discuss the questions she should answer before deciding to use credit or borrow money.

## Where To Get Credit

The places you can get credit depend on where you live—and your credit rating. This leaflet points out several places people can buy on the installment plan or borrow cash. Not all towns have all of them.

In your discussion with a homemaker you can describe:

- *Stores—Installment Plans*—Usually installment buying is used to buy large, expensive things like furniture, TV sets, or washing machines.

The buyer signs a contract. He may make a downpayment. Then he pays a set amount each week or month. The contract may be for a few months or 2 or 3 years. The store adds interest and other special charges. The buyer uses the things while he pays for them. He does not own them until all payments are made.

Interest and other charges vary. True annual rates are often 15 to 20 percent. They can be even higher.





- *Stores—Charge Accounts*—(Show a bill from a store.) Regular store charge accounts let people buy things now and pay later. They may be asked to sign a sales slip each time they buy. Usually there is no charge for this kind of credit if they pay promptly. With a regular charge account, bills are sent out every 30 days. The bill is due then. An interest or service charge may be added to the bill if it is not paid in 30 days.

Revolving charge accounts are different. A person can charge only a certain amount. He and the store agree on how much when he opens the account. This limit is based on his income and credit rating. He pays a certain amount each month. He is charged interest on the unpaid balance. The rate is usually 1 to 1½ percent a month. This amounts to 12 to 18 percent a year.

Stores with charge accounts may have higher prices to help cover the cost of this service. Charge account regulations vary. Tell homemakers to get all the facts about any one they use.

- *Banks*—Banks loan cash. Bankers want to know how long a person has lived where he does and how long he has worked at a place. They will check to see how soon he pays his bills. He will be asked to sign a legal contract when he borrows.

Sometimes a borrower has to have “collateral” or “security”. This is something he will give the bank if he can’t pay off the loan. Often what he buys with the money he borrows can be used for collateral—a car, for example. A person who has collateral generally can borrow cash at a lower rate than one who doesn’t.

Most banks use either the “add-on” or “discount” method to figure interest on

personal loans. Loans may be repaid in regular weekly or monthly payments or all at once. If they are paid weekly or monthly, interest is charged on the full amount of the loan until it is all repaid.

Bank rates vary from time to time and from one section of the country to another. Many people who might be able to get bank loans borrow where it costs more because they don’t know enough about banks.

- *Credit Unions*—Credit unions lend money only to members who own a full share. Interest is stated as a monthly rate on the unpaid balance. Each credit union sets its own rates. They do not charge more than one percent a month. This is a true annual rate of 12 percent.

To join some credit unions, a person may pay as little as 25¢ per month and agree to buy at least one \$5.00 share. When he has deposited \$5.00, he has a full share.

- *Personal Finance and Small Loan Companies*—Personal finance or small loan companies require little or no collateral. They usually charge higher interest rates and service charges than other lenders because they make smaller loans and take greater risks. Many States limit the amount of interest a company can charge. Interest is usually stated as a monthly rate on the unpaid balance of the loan—generally about 1½ to 3½% per month. This amounts to 18 to 42 percent a year.

- *Pawnshops*—The rate of interest is very high. It could be 24 to 120 percent or more. A person must leave something of value such as a radio, television set, typewriter, sewing machine, or camera with the pawnbroker. If the loan isn’t paid, the pawnbroker can sell what was left.



The amount of the loan is small compared with the value of what is left.

- **Illegal Lenders**—Some lenders operate outside the law. They may charge even more than pawnshops. Such lenders often take advantage of people. Warn the homemakers to avoid borrowing from them.

## How to Figure the Dollar Cost of Credit

This is the booklet you will likely use most often. If your homemaker can figure how many dollars it costs to buy on credit, she can judge if using credit is worth it. This will also help her shop for the best place to buy on credit.

- Give her the booklet, *How to Figure the Dollar Cost of Credit*. Tell her how important it is to know this. Go through each step of the leaflet with her. Help her figure as you go along.
- If you are meeting with a group of women, show them the steps on a chalkboard. Have them follow along in their booklets.
- Bring a mail order catalogue to this lesson. Ask them to figure the dollar cost of buying a TV set on the installment plan.



## Your Credit Contract

This leaflet lists the important things that should be in each contract. Go through it with the homemaker, point by point.

- Talk about the importance of reading and studying a contract. It is a legal document. A person is responsible for what he signs.
- Be sure the woman knows the total amount she must pay.
- Most contracts have a blank for the total amount owed. Tell the woman to be sure this blank is filled in before she signs the contract.
- Be sure she knows when each payment is due. When she gets a loan, have her ask if she can pay right after her own payday. This will help her avoid late payments.
- She should know what happens if she pays late or misses a payment. Some lenders charge extra money for late payments.

- Does she know what happens if she can't pay? Most States permit an "add-on" clause. This means the lender can take back things she bought and paid for before, if she doesn't pay for the new things. In about three-fourths of the States, installment contracts can include a wage assignment clause. Her creditor can go to her employer to collect on her debt without going to court first. This means she doesn't get her pay. He does. It is also called garnishment.
- The homemaker should be sure the contract spells out all these things before she signs it. The contract is what counts, not what a salesman said. What someone says is hard to prove in court. No one should ever sign a contract that has any blank spaces.

Bring the forms needed to open a charge account or apply for a loan. Discuss how to fill out the forms. Discuss what each statement means and why it is on the form.

## DO'S and DON'TS of credit



## Do's and Dont's of Using Credit

Use this leaflet with homemakers who have decided to use credit. These "do's and don'ts" are the keys to:

- Keeping a good credit rating.
- Holding credit costs as low as possible.
- Using credit wisely.

Discuss them with your homemakers. If you are working with a group, you might take them to visit a local credit bureau. Find out how it works.